

Decision \_\_\_\_\_

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (U338E) for Authorization to Recover Costs Incurred in 2009, 2010, and 2011 and Recorded in the Bark Beetle Catastrophic Event Memorandum Account.

Application 12-05-003  
(Filed May 1, 2012)

**APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY  
(U338E) FOR AUTHORIZATION TO RECOVER COSTS INCURRED IN  
2009, 2010, AND 2011 AND RECORDED IN THE BARK BEETLE  
CATASTROPHIC EVENT MEMORANDUM ACCOUNT**

**Summary**

This decision finds reasonable the \$11.735 million of incremental Operations and Maintenance (O&M) expenses recorded in Southern California Edison Company's (SCE) Bark Beetle Catastrophic Event Memorandum Account (CEMA) for the period of January 1, 2009 through December 31, 2011; and authorizes SCE to transfer its December 31, 2011 balance in the Bark Beetle CEMA and O&M Cost Subaccount of \$11.735 million, plus interest to the effective date of this decision, to the Distribution Subaccount of the Base Revenue Requirement Balancing Account for recovery in rates.

**Background and Procedural History**

The mountainous communities of Southern California have experienced years of prolonged drought, overstocked forests, and an infestation of bark beetles. This combination of events has resulted in approximately 13 to 15 million dead, dying, and diseased trees in the San Bernardino National

Forest.<sup>1</sup> These dead, dying, and diseased trees create a hazard to the people and property in these communities as well as to Southern California Edison Company (SCE) electrical facilities that serve these communities. Because the potential fire hazard in these communities was considered unprecedented, Governor Davis issued a State of Emergency Proclamation (Emergency Proclamation) for the counties of Riverside, San Bernardino, and San Diego on March 7, 2003.

Subsequently, on January 6, 2005, Governor Schwarzenegger issued a proclamation which extended the directions, orders, and authorities of the March 7, 2003 Emergency Proclamation to include affected areas of Los Angeles County. Among other things, the Emergency Proclamations requested that the Commission direct utility companies with transmission lines in Riverside, San Bernardino, San Diego, and Los Angeles counties “to ensure that all dead, dying and diseased trees and vegetation are completely cleared from their utility right-of-ways to mitigate the potential of fire danger.” The Commission also directed the utilities to invoke their Catastrophic Event Memorandum Account (CEMA) “for fund accounting.” In addition, the utilities were “authorized to make annual advice letter filings requesting recovery of the costs of removal and incremental support costs recorded during a specified period in their CEMAs to allow rate recovery of the amounts determined to have been reasonably incurred.” On April 4, 2003, SCE notified the Commission that it had activated its Bark Beetle CEMA effective April 3, 2003, for Riverside and San Bernardino

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<sup>1</sup> Estimate provided by the San Bernardino County and Riverside County Mountain Area Safety Taskforces, which include the California Department of Forestry and Fire Protection and the U.S. Forest Service.

Counties. On September 21, 2004, SCE notified the Commission that it had activated its Bark Beetle CEMA for Los Angeles County effective August 25, 2004.

In Resolution E-3238, the Commission authorized SCE to establish a CEMA to record costs associated with:

- 1) Restoring utility service to its customers;
- 2) Repairing, replacing, or restoring damaged utility facilities; and
- 3) Complying with governmental agency orders from declared disasters. Before including any costs in its Bark Beetle CEMA, SCE ensured that the costs were incremental, documented to be bark beetle-related, and reasonable.

On June 3, 2004, SCE submitted its first Bark Beetle CEMA filing, Advice Letter 1801-E, requesting recovery of \$18.08 million of bark beetle-related costs recorded in the Bark Beetle CEMA for the period of April 3, 2003 through December 31, 2003. On September 23, 2004, the Commission issued Resolution E-3880, which approved Advice Letter 1801-E with Modification.

On December 16, 2005, SCE submitted its second Bark Beetle CEMA filing, Application (A.) 05-12-018, requesting recovery of \$129.5 million of bark beetle-related costs recorded in the Bark Beetle CEMA for the period of January 1, 2004 through December 31, 2004. On October 19, 2006, the Commission issued Decision (D.) 06-10-038, which adopted a Settlement Agreement between SCE and the Division of Ratepayer Advocates (DRA). The Settlement Agreement determined that all of the \$129.5 million of incremental Operations and Maintenance (O&M) costs that SCE recorded in the Bark Beetle CEMA during 2004 were reasonable. In the Settlement Agreement, DRA concluded that "SCE has strong internal controls over the bark beetle project

(Bark Beetle Project) costs and that all of its bark beetle related actions taken in 2004 were reasonable and necessary to mitigate the unprecedented fire hazard caused by the bark beetle infestation, thus meeting the standard for prudent managerial actions. Specifically, DRA found that SCE adequately controlled the work performed by contractors and complied with the Commission's requirements for catastrophic event memorandum accounts."

On June 5, 2007, SCE submitted its third Bark Beetle CEMA filing, A.07-06-008, requesting recovery of \$42.160 million of bark beetle-related costs recorded in the Bark Beetle CEMA for the period of January 1, 2005 through December 31, 2006. DRA conducted an audit of the bark beetle project costs for 2005 and 2006. On February 28, 2008, the Commission issued D.08-02-014, which noted that DRA had completed its audit and found no issues. The Commission (1) granted the recovery of \$42.160 million of O&M expenses recorded for the period of January 1, 2005 through December 31, 2006; (2) authorized the transfer of \$44.306 million, plus interest through the date of the decision, to the Distribution Subaccount of the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates; and (3) authorized the termination of the Bark Beetle Property Owner Tree Removal Reimbursement Program.

On November 16, 2009, SCE submitted its fourth Bark Beetle CEMA filing, A.09-11-011, requesting recovery of \$16.004 million of bark beetle-related costs recorded in the Bark Beetle CEMA for the period of January 1, 2007 through December 31, 2008. DRA again audited the costs. On May 20, 2010, the Commission issued D.10-05-032, which stated that the DRA completed its audit of the Bark Beetle CEMA for the 2007-2008 period and found the O&M expenses to be reasonable and incremental to the normal line clearing costs. The decision (1) concluded that the \$16.004 million incurred by SCE between January 1, 2007

and December 31, 2008 was reasonable and (2) authorized the transfer of \$16.428 million, plus interest through the effective date of the decision, to the Distribution Subaccount of the BRRBA for recovery in rates.

In the present application and its supporting testimony, SCE represents that the processes and procedures used by the SCE Bark Beetle Project to manage the tree removals for the period of January 1, 2009 through December 31, 2011 did not materially change from those utilized from 2004 through 2008. SCE also represents that the types of Bark Beetle Project costs it incurred in 2009 through 2011 were consistent with those incurred during prior years.

On June 1, 2012, DRA protested the present application. In its Protest, DRA identified the scope of its anticipated audit: "DRA's audit will seek to ensure that the identified costs are compliant, incremental, and reasonable." SCE did not file a reply to DRA's Protest. On June 29, 2012, a telephonic Prehearing Conference was held. On July 5, 2012, a Scoping Memorandum was issued that ordered DRA to serve its Testimony by September 14, 2012. DRA served its Testimony two weeks early, on August 31, 2012. DRA's audit was conducted in accordance with Pub. Util. Code § 454.9 and Commission Resolutions E-3238, E-3924, and E-3880. The general objective of the DRA audit was to ensure that the incremental costs of removal and incremental support costs recorded to SCE's CEMA were supported and reasonable. The audit was conducted through onsite discovery and examination of SCE's books and records. The audit covered calendar years 2009 through 2011. The audit found no exceptions in SCE's Bark Beetle CEMA accounting system for recorded transactions during the audit period and, as a result, DRA did not contest SCE's request for Bark Beetle CEMA costs. On September 20, 2012, DRA moved the admission of its testimony contained in Exhibit DRA-1 into the record.

**Discussion**

SCE has been effectively dealing with the dangers posed by the bark beetle infestation for nearly a decade, during which time its efforts have been repeatedly audited by DRA. As the above history makes clear, DRA has regularly found that SCE's expenses have been relevant and necessary, including the expenses covered by this application. Accordingly, the application should be approved.

**Categorization and Need for Hearing**

In Resolution ALJ 176-3293 dated May 10, 2012, the Commission preliminarily categorized this Application as Ratesetting, and preliminarily determined that hearings were necessary. Although DRA initially protested the Application, DRA withdrew its protest. Given the status, a public hearing is not necessary and the preliminary determinations with regard to hearings should be changed to "not necessary".

**Waiver of Comment Period**

This is an uncontested matter, in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

**Assignment of Proceeding**

Mark J. Ferron is the assigned Commissioner and Karl J. Bemesderfer is the assigned ALJ in this proceeding.

**Findings of Fact**

1. SCE incurred the Bark Beetle costs in response to a declared state of emergency, and in compliance with a governmental order, to remove dead, dying and diseased trees and vegetation from the utility right-of-ways.

2. SCE incurred Bark Beetle costs of \$11.735 million from January 1, 2009 through December 31, 2011.

3. SCE's Bark Beetle costs of \$11.735 million incurred from January 1, 2009 through December 31, 2011, are reasonable and incremental to normal line clearing costs.

### **Conclusions of Law**

1. The disaster declarations issued by Governors Davis and Schwarzenegger constitute events declared to be a disaster by competent state or federal authorities for purposes of Pub. Util. Code § 454.9.<sup>2</sup>

2. SCE's use of the CEMA for recording and recovering costs incurred between January 1, 2009 through December 31, 2011, and taking the necessary steps directed by the Emergency Proclamation is appropriate under Pub. Util. Code § 454.9 and Res. E-3238.

3. Bark Beetle costs of \$11.735 million incurred by SCE between January 1, 2009 and December 31, 2011 are reasonable.

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<sup>2</sup> 454.9 (a) The commission shall authorize public utilities to establish catastrophic event memorandum accounts and to record in those accounts the costs of the following:

- 1) Restoring utility services to customers;
- 1) Repairing, replacing, or restoring damaged utility facilities; and
- 2) Complying with governmental agency orders in connection with events declared by disasters by competent state or federal authorities.

(b) The costs, including capital costs, recorded in the accounts set forth in subdivision (a) shall be recoverable in rates following a request by the affected utility, a commission finding of their reasonableness, and approval by the commission. The commission shall hold expedited proceedings in response to utility applications to recover costs associated with catastrophic events.

4. There are no disputed issues of fact and therefore no hearings are necessary in this proceeding.
5. Exhibit DRA-1 is admitted into the record of this proceeding.
6. Application 12-05-003 should be closed.

**O R D E R**

**IT IS ORDERED** that:

1. Southern California Edison Company is authorized to transfer the December 31, 2011 balance in the Bark Beetle Catastrophic Event Memorandum Account Operational and Maintenance Cost Sub-account of \$11.735 million, plus interest through the effective date of this decision, to the Distribution Sub-account of the Base Revenue Requirement Balancing Account for recovery in rates.
2. This order is a final determination that a hearing is not needed in this proceeding.
3. Application 12-05-003 is closed.
4. This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.